

MARKET TRENDS

SAN DIEGO OFFICE

MARKET DRIVERS

Although sublease space was decreasing the second half of 2021, it has been on the rise again in the past year. The region experienced the highest amount of sublet space on record in 3Q with 2.5M SF on the market. The wavering trend of sublease availabilities over the past couple years indicates there is no one-size-fits-all solution for businesses as the effects of the pandemic wear on.

The volume of leasing activity in 3Q dropped over 50% YOY posting at 1.2M SF, the lowest level experienced since the end of 2020. The average lease signed over the last year is approximately 10% smaller prior to the pandemic.

While the office market saw a significant rise in investment flow in 2021, activity has slowed somewhat the past few quarters in 2022 amid high interest rates. However, due to the slight discount in prices when compared to other SoCal coastal markets, investors remain confident in the San Diego market.

ECONOMIC REVIEW

The San Diego County unemployment rate in August was 3.4%, a sharp decrease from the YOY estimate of 6.5% and is on par with pre-pandemic levels. It is up three basis points month-over-month, adding 6,600 jobs within the last month. This compares with an unadjusted unemployment rate of 4.1% for California and 3.8% for the nation during the same period.

Increased leasing activity among tech firms and life science firms have been driving demand in the market and hiring will continue to rise as these tenants expand further. Tech giant Apple acquired Rancho Vista Corporate Center in 3Q and is now committed to having 5,000 workers locally by 2026.

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MARKET SUMMARY

	3Q22	2Q22	3Q21	Annual Change
Vacancy Rate	11.6%	11.3%	12.4%	-6.45%
Availability Rate	17.1%	16.6%	16.8%	1.79%
Asking Lease Rate	\$3.04	\$3.07	\$2.98	2.01%
Lease Transactions	1,207,637	1,859,929	2,538,315	-52.42%
Sale Transactions	1,419,842	1,344,062	1,598,832	-11.20%
Net Absorption	-54,477	1,335,162	190,389	N/A

1.2M SF
LEASING ACTIVITY

-54K SF
NET ABSORPTION

11.6%
VACANCY RATE

\$3.04
ASKING RENT (AVG)

0 SF
NEW DELIVERIES

Year-Over-Year Trend

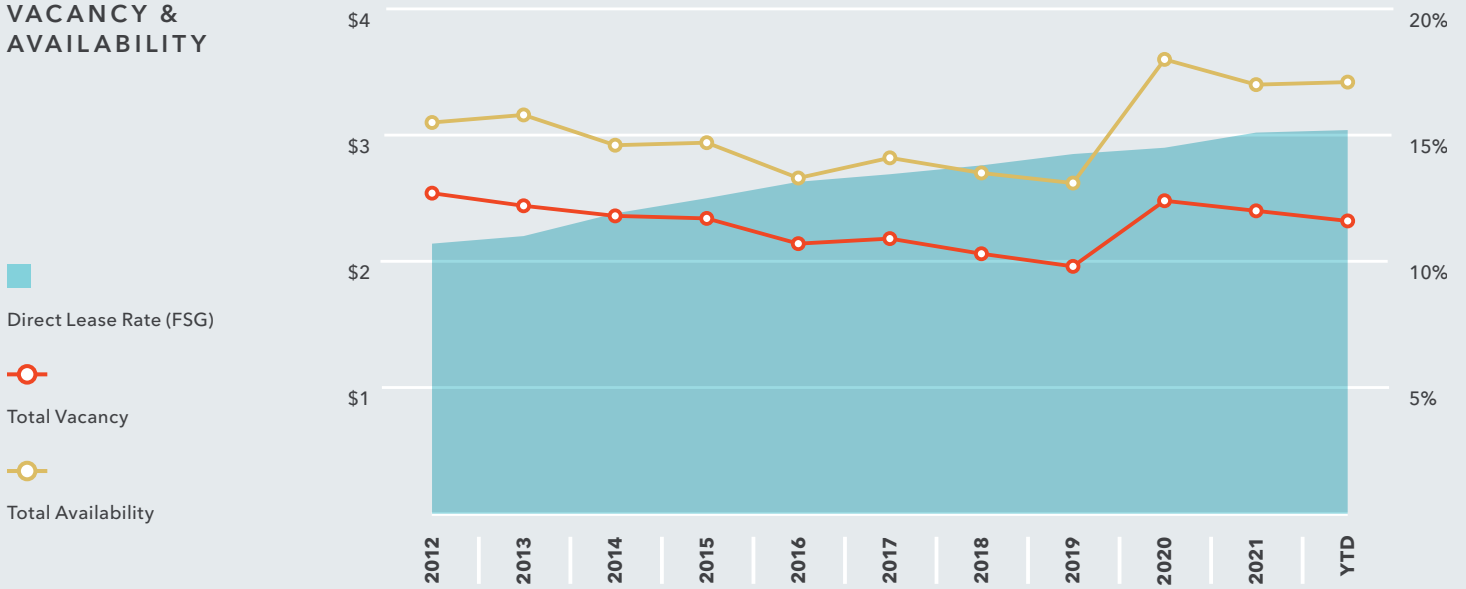
MARKET HIGHLIGHTS

Leasing volume dropped over 50% YOY to 1.2M SF

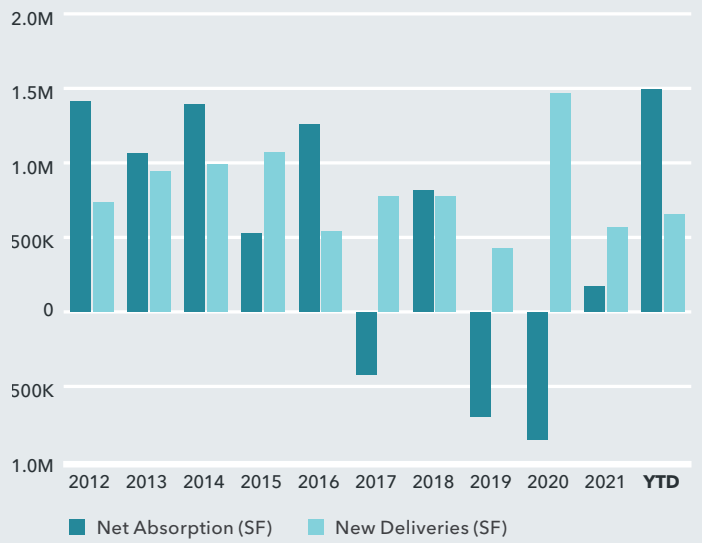
Rental rates increased from last quarter to \$3.04 PSF on a full-service basis

Average sale price per SF posted at a healthy \$396/SF

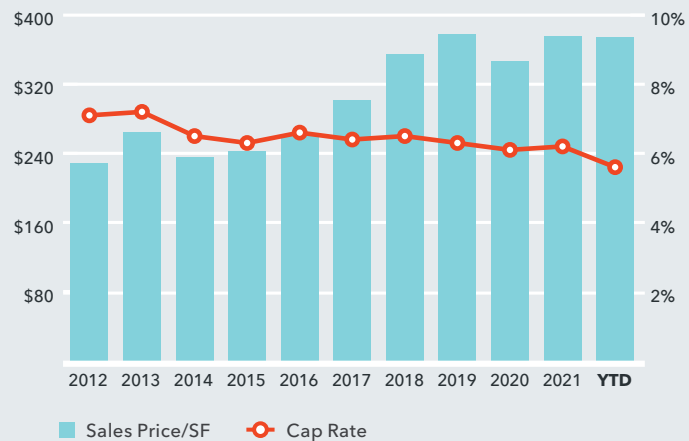
LEASE RATE, VACANCY & AVAILABILITY



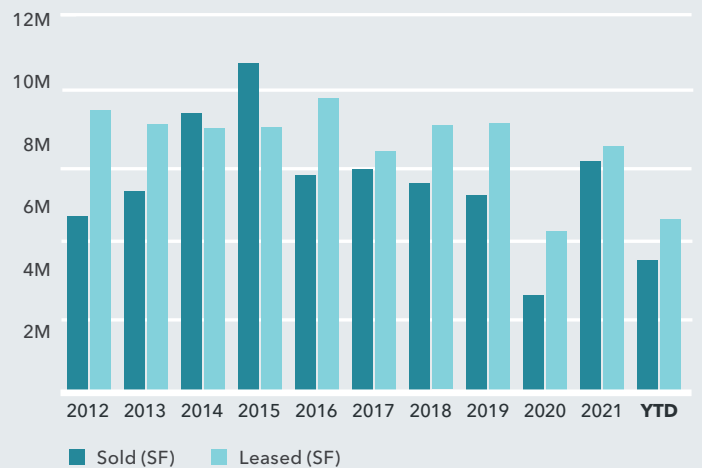
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublet Available Rate	Total Available Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Total Leasing Activity	YTD Leasing Activity	Average Rental Rate (F5)
Carlsbad	6,973,986	11.9%	2.6%	17.5%	10,448	243,746	56,302	392,924	\$2.72
Escondido	1,732,171	9.0%	5.9%	21.9%	6,976	57,841	4,775	49,804	\$2.08
Oceanside	1,541,682	5.5%	0.2%	9.2%	11,236	3,907	6,120	43,028	\$2.26
San Marcos	1,455,192	6.9%	2.5%	8.4%	8,024	47,931	8,322	38,216	\$2.27
Vista	1,265,121	20.0%	2.0%	25.9%	(4,511)	5,491	8,667	33,302	\$2.36
North County	12,968,152	11.0%	2.7%	16.9%	358,916	84,186	557,274	\$2.49	
Poway	1,390,271	6.1%	0.0%	7.3%	(15,882)	(31,628)	2,547	27,412	\$2.25
Rancho Bernardo	6,428,933	12.6%	1.2%	13.2%	17,989	(38,237)	89,786	480,291	\$3.15
Scripps Ranch	2,745,319	16.5%	7.2%	18.4%	(14,082)	29,841	42,102	170,164	\$2.87
I-15 Corridor	10,564,523	12.7%	2.6%	13.8%	(11,975)	(40,024)	134,435	677,867	\$2.96
Del Mar Heights/Carmel Valley	5,729,142	16.2%	5.9%	20.0%	47,583	152,217	51,042	675,424	\$4.69
Governor Park	929,661	7.8%	1.5%	12.1%	30,851	45,374	17,838	84,686	\$2.87
La Jolla	1,341,636	15.6%	3.2%	20.2%	(9,303)	15,540	18,141	52,686	\$3.42
Miramar	1,474,065	4.7%	0.2%	7.0%	20,521	52,842	19,903	76,958	\$2.00
North Beach Cities	2,454,379	8.0%	0.6%	13.7%	(7,860)	(14,533)	34,564	107,266	\$3.92
Sorrento Mesa	9,070,367	8.0%	1.5%	11.5%	(77,328)	117,535	109,039	415,930	\$3.23
Sorrento Valley	648,668	14.9%	0.5%	12.3%	3,837	31,993	5,206	43,027	\$2.37
Torrey Pines	3,164,075	1.9%	2.1%	5.8%	0	125,719	0	9,624	\$4.37
UTC	9,164,474	5.9%	2.8%	10.6%	39,441	346,776	164,846	949,229	\$4.17
North Cities	33,976,467	8.6%	2.6%	12.5%	47,742	873,463	420,579	2,414,830	\$3.81
Kearny Mesa	11,399,864	10.0%	1.9%	12.3%	(36,161)	172,246	126,504	427,372	\$2.67
Mission Gorge	581,130	0.7%	0.0%	2.3%	826	10,838	0	5,822	\$2.32
Mission Valley	7,418,862	16.0%	2.5%	19.9%	(52,663)	(59,598)	167,552	439,008	\$2.95
Old Town/Sports Arena/Pt. Loma	2,268,131	6.1%	6.0%	14.3%	13,244	39,719	32,808	110,367	\$2.58
PB/Rose Canyon/Morena	1,268,661	5.2%	3.9%	10.5%	32,804	13,309	19,942	57,532	\$2.11
Central Suburban	22,936,648	11.1%	2.6%	14.6%	(41,950)	176,514	346,806	1,040,101	\$2.71
College Area	1,213,132	3.7%	0.0%	5.3%	1,174	1,353	7,247	15,318	\$2.34
East County	3,812,051	3.7%	0.3%	5.5%	(12,307)	36,954	12,423	78,777	\$2.37
East County	5,025,183	3.7%	0.2%	5.4%	(11,133)	38,307	19,670	94,095	\$2.36
Downtown	13,833,126	25.7%	2.5%	44.3%	(38,068)	(58,132)	182,039	519,917	\$2.87
Chula Vista	2,892,008	4.2%	0.0%	6.1%	6,539	67,562	9,793	55,391	\$2.71
Coronado	84,540	1.9%	0.0%	1.9%	0	0	0	0	\$3.25
National City	550,315	0.2%	5.0%	5.2%	2,574	2,678	0	20,931	\$2.40
Otay Mesa	187,078	3.3%	0.0%	3.3%	(541)	0	0	0	-
San Ysidro/Imperial Beach	132,746	2.8%	0.0%	2.8%	200	(3,680)	0	0	\$2.79
Southeast San Diego	461,460	2.2%	0.0%	2.2%	0	53,000	0	0	\$2.06
South County	4,308,147	3.4%	0.6%	5.3%	8,772	119,560	9,793	76,322	\$2.50
San Diego Total	106,001,562	11.6%	2.4%	17.1%	(54,477)	1,491,552	1,207,637	5,458,266	\$3.04
Class A	40,324,335	15.3%	3.7%	25.9%	(128,884)	487,585	403,625	2,795,829	\$3.54
Class B	51,619,025	10.2%	1.9%	12.8%	51,563	839,754	730,186	2,313,385	\$2.75
Class C	14,058,202	6.5%	0.2%	7.4%	22,844	164,453	73,826	349,052	\$2.24

NEAR-TERM OUTLOOK

Recent leasing activity highlights the trend of companies migrating from the urban to the suburban markets in the county for employee proximity and more amenities. With the rise in crime rates and homelessness in Downtown San Diego, the submarket may continue to bear the brunt of the post pandemic woes.

Although the San Diego Office market had shown recent signs of a turnaround from the pandemic blow, tenants are still relinquishing unused office space. As more leases set to expire, firms are likely to take up less space as they renew or relocate.

TOP SALE TRANSACTIONS 3Q 2022

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Rancho Vista Corporate Center	Rancho Bernardo	809,769	\$445,000,000	\$549.54	Apple, Inc.	Swift Real Estate Partners
Atlas	Carlsbad	230,957	\$88,750,000	\$384.27	Tritower Financial Group	Regent Properties, Inc.
Regents Park Financial Centre	UTC	100,000	\$57,000,000	\$570.00	Welltower, Inc.	Regent Properties, Inc.
8975 - 8985 Balboa Ave	Kearny Mesa	94,988	\$27,500,000	\$289.51	Sharp HealthCare	Jack Henry & Associates, Inc.
9619 Chesapeake Dr & 9444 Farnham St	Kearny Mesa	88,522	\$22,800,000	\$257.56	M.C. Strauss Company	Brixton Capital

TOP LEASE TRANSACTIONS 3Q 2022

Property	Submarket	SF	Transaction Date	Landlord	Tenant
9815 Towne Centre Dr	UTC	63,412	August 2022	Irvine Company	Apple (sublease)
5717 Pacific Center Blvd	Sorrento Mesa	54,232	July 2022	BioMed Realty	Maravai LifeSciences
Innovation Corporate Center	Rancho Bernardo	48,000	August 2022	Ascendas-Singbridge Group	Peraton
Scripps Northridge	Scripps Ranch	38,600	August 2022	Phase 3 Real Estate Partners, Inc.	Firmenich
5855 Copley Dr	Kearny Mesa	36,648	July 2022	Nuveen	AT&T

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
RaDD - Alley/Rise/Vida/Core/Edge	Waterfront Pl & Pacific Coast Hwy	Downtown	1,787,166	IQHQ	September 2023
The Campus at Horton	100 & 200 Horton Plz	Downtown	742,607	Stockdale Capital Partners	January 2023
West - Office	1011 Union St	Downtown	270,000	Holland Partner Group	January 2024
La Jolla Commons Tower III	4727 Executive Dr	UTC	212,851	American Assets Trust, Inc.	April 2023
16705 Via Del Campo Ct	16705 Via Del Campo Ct	Rancho Bernardo	83,482	Drawbridge Realty	March 2023

Data Source: EDD, CoStar, SDBJ, TechCrunch



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COMMERCIAL BROKERAGE	\$10.9B TRANSACTION VOLUME ANNUALLY	49.7M ANNUAL SALES SF	43.7M ANNUAL LEASING SF
ASSET SERVICES	52M MANAGEMENT PORTFOLIO SF	875+ ASSETS UNDER MANAGEMENT	270+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,600+ ASSIGNMENTS ANNUALLY	47 TOTAL APPRAISERS	24 WITH MAI DESIGNATIONS

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